

# **Innovations for Scale and Sustainability in EITC Campaigns**

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## **Thoughts and Lessons from Pilot Approaches**



Economic Opportunities Program

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### **I. Introduction**

The Annie E. Casey Foundation has been an active supporter of Earned Income Tax Credit Campaigns across the United States. Building on existing infrastructures in their communities, these campaigns provide: (1) education and assistance to promote the EITC and other tax credits for qualified working poor families; (2) free or low-priced quality tax preparation services; and (3) links to other programs and services so that tax filers can use their refunds to begin building financial assets.

While the campaigns have helped hundreds of thousands of low-income workers receive tens of millions in tax refunds, they have proven to be expensive and labor-intensive to operate. Given the campaigns' ambitious goals and limited resources, there has been increasing interest in identifying alternative models that have greater potential for scale, sustainability and impact. Beginning in late 2003, Annie E. Casey, working through the Aspen Institute's Economic Opportunities Program, provided grants and technical assistance to a limited number of campaigns to support the design, development and pilot implementation of innovative approaches to EITC outreach, tax preparation and asset development.

This paper summarizes and draws tentative conclusions from the first year of several pilot projects conducted by campaigns.<sup>1</sup> These include:

- A pilot in Chicago to expand free tax preparation, financial education and access to financial services by working through employer Human Resources departments, with the goal of integrating those activities into the employers' benefits package.
- A pilot in Louisville to partner with the local workforce development agency and integrate asset building activities into the operations of local one-stop centers.
- Market research in Philadelphia and Louisville to better understand the low-income market for financial services in order to design asset-building approaches that have more likelihood of success.
- Exploration in Atlanta, Baltimore and New Jersey of partnerships with commercial tax preparation firms, with the goal of significantly expanding the availability of affordable tax preparation services.
- Efforts in New Mexico, Delaware and New Orleans to significantly improve their technological infrastructure, in order to streamline and improve operations, allowing them to take their campaigns to the next level of scale, sustainability and impact.

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<sup>1</sup> Special thanks to campaign and partner staff in each of the nine sites, who implemented the innovations and provided information and assistance in developing the reports.

Individual reports on each approach examine the design, implementation and results of the pilot efforts, describe the opportunities and challenges raised, and discuss the potential of each for achieving scale, sustainability and impact. This paper considers the lessons from each and looks at some larger questions:

- What do the pilots teach us about the challenges of scale, sustainability and impact?
- What critical factors appear to be prerequisites for achieving these goals?
- What role does free tax preparation play in campaigns' future visions?
- What strategies appear to have the greatest potential for success – and what key questions remain?

The Aspen Institute plans to continue to support and follow these and additional innovations in a second year of the study.

## **II. What do the pilots teach us about the challenges of scale, sustainability and impact?**

As noted above, while EITC campaigns have grown impressively over the past few years, the field has struggled with questions of future growth as it seeks to achieve its ambitious goals. The frustrations have been related to three areas:

- **Scale.** Even those campaigns completing several thousand tax returns each year would like to assist a larger share of low-income families with all campaign services (tax preparation, financial education, asset development, etc.)
- **Impact.** Success to date has largely been related to the growth of free tax preparation, and campaigns would like to have a much more significant effect in helping families achieving long term financial stability and asset development.
- **Sustainability.** As campaigns mature and grow, it becomes harder to keep partners and funders engaged, raising critical questions about their ability to maintain operations over time, especially with regard to financial resources.

In the pilot innovations, campaigns are exploring a variety of strategies for addressing these three areas of concern. Among the lessons learned, the pilots have helped to clarify some of the key challenges of scale, sustainability and impact:

Challenge #1: External partners have generally been willing to participate only at little or no cost to them. The pilots in Chicago and Louisville both found potential partners eager to participate and provide expanded services to their workers/customers. However, both staffing constraints and budget bottom lines limited their willingness to commit resources to the pilot. Commercial preparers, meanwhile, made clear that they would expect any joint partnership to be profitable.

Challenge #2: The pilots generally proved more staff and resource intensive than expected. In Chicago, working with employers required the non-profit partners to commit extensive staff time building and maintaining corporate relationships as well as delivering pilot services. In Louisville, insufficient staffing was a key factor limiting success – when partner staff were

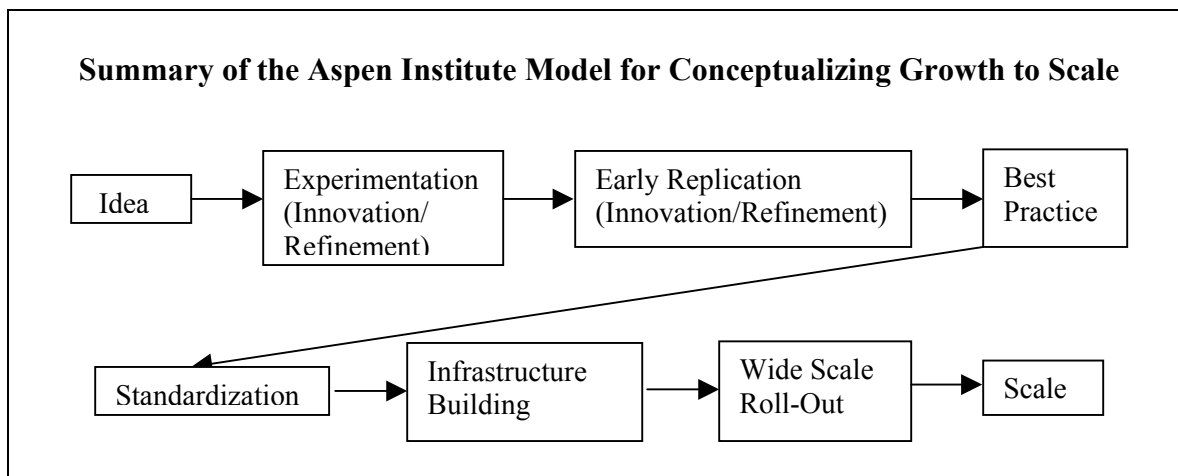
not physically at the one-stop, little could occur. Even some of the commercial partnerships fizzled in part because campaigns were too busy during the tax season to follow through.

Challenge #3: As others have found, it has been much easier to expand financial education than to achieve asset development. The Chicago and Louisville pilots sought to provide both financial education and links to accounts, loans, IDAs and other products. In both cases, however, the primary service was financial workshops, and while interest in the workshops was strong, they did not translate into increased participation in savings activities. The market research findings further highlight the difficulties that low-income that families face in trying to build assets.

Challenge #4: While a variety of strategies can improve efficiency and effectiveness, significant leaps are more elusive. Each of the innovations can help campaigns realize their goals. In particular, they promise better targeting, expanded outreach, improved use of resources, and more depth of impact. It is not yet clear, however, whether these approaches can generate more than marginal improvements – that is, whether they will ultimately address the significant challenges campaigns face in achieving scale, sustainability and impact.

### **III. What critical factors appear to be prerequisites for achieving these goals?**

In its work around IDAs, the Aspen Institute developed a model describing how organizations grow, expand their reach and become sustainable. That model – which can be applied to the EITC field as well – is summarized below:



The innovations piloted here can provide early clues for what larger scale roll-out might look like and what factors might be critical in establishing industry standards and building a national infrastructure. Among the relevant lessons are the following:

Lesson #1: Existing infrastructures are unlikely to meet the needs of EITC campaigns without significant changes. Rather than develop a new infrastructure, the pilots looked to existing systems (Human Resources, workforce development and the tax preparation industry) to provide a foundation for achieving scale. However, each of the systems has its own

limitations and priorities that affected their willingness or ability to take on additional roles without new resources or structural changes.

Lesson #2: Convenience will be a critical factor in the success of any approach. Even more than expected, convenience was a key theme for the pilots. In Chicago, participation was much higher in services provided at the workplace, and employees cited convenience as the primary reason for non-participation. In Louisville, clients were unlikely to open an account if there was no credit union nearby. The technology proposals looked to make it easier for volunteers and clients to participate. Finally, market research identified convenience as a core factor in decision-making around financial services – more important than price.

Lesson #3: For efforts to be sustainable, both cost of providing services and the intensiveness of staff involvement must be minimized. Large scale roll-out is unlikely to be feasible if there are not significant savings associated with scale. As it is, the pilots required a significant investment, especially in terms of hands-on staff time, thereby raising questions about their sustainability. While the technological improvements are intended to yield productivity increases, they still only address one piece of campaign's resource needs.

Lesson #4: To engage low-income families, any strategy must address perceived need. Like EITC campaigns overall, the pilots struggled to engage families in asset development. Meanwhile, market research confirmed that low participation in at least in part related to a disconnect between the services offered (or the way they are marketed) and perceived need among low-income families. While families do want to save, they are more immediately concerned with other financial pressures, such as day-to-day expenses and debt management.

Lesson #5: Quality needs to be consistent and high. Quality has been a high-profile theme among campaigns in the past year, and implementation of the pilots has occurred with an understanding over the long term, quality of service will be necessary to build client trust and positive word of mouth in the community, as well as to maintain funding support for campaigns. These issues will only become more important as the field looks to standardize operations and roll out successful initiatives.

#### **IV. What is the role of free tax preparation in campaigns' future visions?**

The growth of EITC campaigns across the country has centered on expansion of free tax preparation. And yet, the growth of free tax preparation has in many ways precipitated concerns about scale, sustainability and impact. Tax sites are expensive to operate, raising questions about the ability to fund growing campaigns. Perhaps more importantly, however, the intensive operational needs of running sites have overwhelmed campaigns and diverted their focus. While saving filing fees is one motivation of many campaigns, their ultimate goal is to use the EITC as a doorway to financial education and asset development.

It is not surprising, then, that few of the pilots prioritized expansion of free tax preparation. Only New Mexico and Delaware – two sites that sought technological improvements to streamline operations – focused primarily on free tax preparation. While free tax preparation was a part of the Chicago and Louisville pilots, it was arguably not as important as financial

education and access to financial services. Innovations in Philadelphia and New Orleans explicitly sought to go beyond tax preparation to improve asset development efforts. And the three sites that explored partnerships with commercial preparers openly looked to fee-based preparation as a route to expand campaign activity related to other goals.

Assuming that creating huge free tax preparation programs is not the primary goal, it is still an important piece of EITC campaigns. In general, the campaigns involved in the pilots have begun to separate the continued growth of free tax sites from their long-term goals around scale, sustainability and impact. Yet they also recognize the value of free tax preparation for:

- Offering an alternative to high-priced firms, and combating Refund Anticipation Loans and other predatory practices.
- Bringing in non-filers who may be eligible for the EITC but would not have paid for tax preparation because they did not know they could get a refund.
- Acting as a front door for financial education, asset development and other programs.
- Providing an opportunity to interact with low-income tax filers and learn about issues that affect them.
- Building a constituency for low-income tax issues that can be organized to advocate for change.
- Providing clear quantifiable outcomes that can help programs establish credibility.
- Giving programs and the EITC local visibility by attracting the attention of media and elected officials.

## **V. What strategies appear to have the greatest potential for success – and what questions remain?**

Each of the pilot approaches both showed positive potential and raised serious questions for the future. Overall, the first year of planning and/or implementation suggests the following:

Innovation #1: Delivery of Services through the Workplace. Providing financial services to low-income families through their employers could ultimately achieve the greatest results of any innovation, because it would go the furthest toward mainstreaming the EITC and asset development. At the same time, however, the Chicago pilot suggests that the particular model used – with campaign partners providing direct services to individual employers – produced few cost savings and was highly staff intensive. It will be interesting to see if, in the pilot's second year, they can more successfully integrate services into what employers do themselves. In addition, it would be useful to test alternative strategies within this same theme to see if they might offer more realistic opportunities for achieving long-term goals.

Innovation #2: Integration into the Workforce Development System. One-stop centers offer a more modest but still potentially large-scale and high-impact approach. Because one-stops already combine a variety of services under one roof, it was easy for the Louisville coalition to successfully add financial services to the mix. If these activities were expanded to one-stops nationwide – and in particular, if on-site financial services could be provided – the result would be significant. The key outstanding questions are whether the model can go further in

terms of asset development; whether other one-stops will be equally receptive to the services; and ultimately, whether the workforce system would devote budget dollars to these services.

Innovation #3: Market Research. Of all the innovations, market research could make the greatest difference in terms of impact, if it can point the way to strategies that have more success at helping families build assets. Based on the experiences of Philadelphia and Louisville, market research provides opportunities to better understand the target audience and make changes in what services are offered, how they are offered and how they are marketed to the community. Despite these benefits, however, key questions remain. In particular, even if campaigns are able to achieve greater scale and impact as a result of more sophisticated market research, how will they pay for this expansion? The question of sustainability remains a critical one for the future.

Innovation #4: Technological Improvements. Investments in technology promise the most immediate operational improvements for campaigns. The pilots look to technology to: increase tax site efficiency; raise the quality of services provided; increase the number of clients served; and achieve cost savings over time. Some ideas could be standardized more broadly, such as development of a national on-line volunteer training curriculum or asset-building software. Unfortunately, the innovations are more conceptual than actual at this point. Most importantly, it remains to be seen 1) how far technology can take campaigns – and whether that will be enough to reach critical levels of scale and impact; and 2) whether savings are realistic and will be sufficient to make campaigns sustainable over time.

Innovation #5: Partnerships with Commercial Preparers. Partnering with commercial preparers could offer quick gains in scale, but a great many questions remain about the viability of this approach and how it would play out. Of the three innovations, one will begin in the coming tax season and the others fizzled in implementation. A larger number of partnerships are planned for 2005, and these can provide further lessons about this approach, its benefits and risks, and its potential for achieving scale, sustainability and impact. It will be important better understand the benefits of partnership from the perspective of commercial firms, as well as to learn whether common ground can be found between the goals of EITC campaigns and the profit motive of commercial preparers.